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10 **IN THE UNITED STATES DISTRICT COURT**
11 **FOR THE CENTRAL DISTRICT OF CALIFORNIA**

12 UNITED STATES OF AMERICA,

13 Plaintiff,

14 v.

15
16 OLYMPIA HEALTH CARE LLC,
ALECTO HEALTHCARE SERVICES,
17 LLC, MPT OF LOS ANGELES, L.P.,
MPT OF OLYMPIA, LLC, MPT
18 OPERATING PARTNERSHIP, L.P.,
MEDICAL PROPERTIES TRUST,
19 INC., SHERMAN/GRAYSON
HOSPITAL, LLC, ALECTO
20 HEALTHCARE SERVICES
SHERMAN, LLC, LAXMAN REDDY,
21 MATTHEW WILLIAMS, and
22 JEREMY REDIN,

23 Defendants.
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Case No. 2:23-cv-01783-ODW-PVC

**JOINT STATUS REPORT
CONCERNING CLAIMS AGAINST
DEFENDANTS OLYMPIA
HEALTH CARE LLC, ALECTO
HEALTHCARE SERVICES LLC,
SHERMAN/GRAYSON HOSPITAL,
LLC, ALECTO HEALTHCARE
SERVICES SHERMAN, LLC,
LAXMAN REDDY, MATTHEW
WILLIAMS, AND JEREMY REDIN**

1 Plaintiff United States of America (“Plaintiff”),¹ Defendants Olympia Health
2 Care LLC, Alecto Healthcare Services Sherman, LLC, Laxman Reddy, Matthew
3 Williams, and Jeremy Redin (collectively the “Alecto Defendants”), by and
4 through their undersigned counsel, submit this joint status report as ordered by the
5 Court (Doc. No. 30) in light of the Alecto Defendants’ insurance coverage dispute
6 and the bankruptcy filings and consequent automatic stay of this litigation against
7 Defendants Sherman/Grayson Hospital, LLC (“Sherman Hospital”) and Alecto
8 Healthcare Services LLC (“Alecto”) (collectively, the “Bankrupt Defendants”).

9 Background

10 1. On October 20, 2023, Plaintiff dismissed its claims, without prejudice,
11 against Defendants MPT of Los Angeles, L.P., MPT of Olympia, LLC, MPT
12 Operating Partnership, L.P., and Medical Properties Trust, Inc., (Doc. No. 35).

13 2. Plaintiff and the Alecto Defendants (collectively, the “Parties”) reported in
14 prior status reports to the Court, that a continued stay of the litigation was
15 warranted because of (1) the Bankrupt Defendants’ ongoing bankruptcy
16 proceedings, along with (2) the Alecto Defendants’ ongoing dispute with their
17 insurer. On November 13, 2024, the bankruptcy court (1) lifted the stay of
18 litigation as to Sherman Hospital and Alecto solely to allow the United States to
19 file an amended complaint in this Court subject to the terms and conditions set
20 forth in the stipulation and order, and (2) the Parties have been negotiating a
21 stipulation to allow Plaintiff to amend its complaint.

22 3. Regarding the bankruptcies:

23 a. As detailed in prior status reports, Plaintiff’s claims against the Alecto
24 Defendants are significantly impacted by the Alecto and Sherman Hospital
25 bankruptcies. The Alecto Defendants and the Bankrupt Defendants filed their
26

27 ¹ Counsel for the United States apologizes to the Court for the inadvertent delay in
28 submitting this status report.

1 Answer to the Complaint on May 11, 2023, over a month before Alecto and
2 Sherman Hospital filed separate Chapter 11 bankruptcy petitions on June 16, 2023,
3 and June 23, 2023, respectively, and the two separate cases are still pending in the
4 United States Bankruptcy Court for the District of Delaware. While the same
5 judge presides over both bankruptcies, the cases have different U.S. trustees, and
6 Alecto filed as a Subchapter V debtor, while Sherman Hospital is a liquidating
7 Chapter 11 debtor. During its bankruptcy, the assets of Sherman Hospital were
8 sold pursuant to an order of the bankruptcy court, and the hospital remains in
9 operation, with a pending motion to settle claims and dismiss the bankruptcy case.
10 Alecto also continues to operate pursuant to its confirmed plan of reorganization,
11 as further described below.

12 b. As previously reported, Sherman Hospital's motion to approve a
13 settlement and dismissal of its Chapter 11 case – which was filed in October 2023
14 and to which multiple objections were filed – remains pending and the Parties
15 cannot predict when Sherman Hospital's bankruptcy will be completed. In the
16 Alecto bankruptcy, its Small Business Debtor's Plan of Reorganization (the
17 "Plan") became effective on April 19, 2024. Under the Plan Alecto will make
18 three years' worth of payments to creditors, to conclude potentially by mid-2027.
19 Based on the Plan, the United States expects that it will receive less than 10% of
20 the amount of its claims in this case.

21 c. In the Alecto bankruptcy, the United States and Alecto jointly filed a
22 stipulation on November 13, 2024, to lift the stay of litigation against Alecto solely
23 to allow the United States to amend the claims against it in this Court subject to the
24 terms and conditions set forth in the stipulation and order, which the bankruptcy
25 court approved by order on that same date, and which the Alecto Defendants did
26 not oppose.

27 d. In the Sherman Hospital bankruptcy, the United States and Sherman
28 Hospital jointly filed a stipulation on October 29, 2024, to lift the stay of litigation

1 against Sherman Hospital solely to allow the United States to amend the claims
2 against it in this Court subject to the terms and conditions set forth in the
3 stipulation and order, which the bankruptcy court approved by order on November
4 13, 2024, and which the Alecto Defendants did not oppose.

5 4. Regarding discovery in this case:

6 a. On June 23, 2023, Plaintiff filed the Parties' first stipulation to extend
7 time for the scheduling conference through September 18, 2023 (Doc. No. 22). On
8 June 26, 2023, the Court entered its Order granting the parties' stipulation for
9 continuance of the scheduling conference (Doc. No. 23). As a result, a scheduling
10 order has not been issued. Plaintiff continues to analyze and evaluate the impact of
11 the bankruptcies on its claims against the Alecto Defendants, including the effect
12 of the automatic stay on Plaintiff's ability to conduct discovery of information in
13 Alecto's custody and control, which necessarily hinders the ability to effectively
14 meet with the Parties' counsel, prepare a report to the court, and prepare for and
15 participate in a scheduling conference in court.

16 b. The Parties agreed that necessary discovery – most importantly from
17 Alecto – could not occur without permission from the bankruptcy court.
18 Specifically, although the individual defendants Laxman Reddy, Matt Williams
19 and Jeremy Redin may have access to Alecto's or Sherman Hospital's documents
20 for conducting business, the bankruptcy stay does not allow production of Alecto's
21 or Sherman Hospital's documents in this litigation before this Court. Additionally,
22 production of documents in the bankruptcies would require the Bankrupt
23 Defendants to incur substantial expense for attorneys and support staff. Those
24 expenses would also require approval by the bankruptcy court, which at this
25 moment cannot be ensured, and which would erode the bankruptcy estate assets of
26 Alecto and/or Sherman Hospital for a potential recovery by Plaintiff.

27 5. Regarding the insurance coverage issues, the Alecto Defendants (including
28 the Bankrupt Defendants) continue to be involved in ongoing conversations with

1 their insurance companies about potential insurance coverage for certain of
2 Plaintiff's claims. The Parties agree that, optimally, the insurance coverage issues
3 should be resolved before a Rule 16 conference is held or scheduling order is
4 issued. On December 5, 2022, the Alecto Defendants tendered the claims that the
5 United States later asserted in the Complaint against the individual defendants to
6 their primary and excess insurance carriers. With cooperation from the United
7 States, the Alecto Defendants provided a draft complaint to the primary insurance
8 company for its review and consideration on January 22, 2023. Despite follow-up
9 from the Alecto Defendants with their insurance companies, the primary insurance
10 company did not issue a coverage decision until June 15, 2023. The coverage
11 letter denied coverage for the claim under the primary policy and under an excess
12 policy issued by the primary insurance company; the other excess policy follows
13 form, and the excess carrier would have presumably followed that coverage
14 decision. The Alecto Defendants disagreed with the primary insurance company's
15 decision to deny coverage under any of the policies and contested the denial.

16 On October 2, 2023, the primary insurance company agreed to withdraw its
17 declination of coverage but continues to maintain a full reservation of rights
18 pending its ongoing investigation of the claim. Thus, coverage could still
19 ultimately be denied.

20 With the December 2023 filings of the \$29 million CMS proofs of claim in the
21 Alecto and Sherman Hospital bankruptcies, the United States informed counsel for
22 the Alecto Defendants that the additional \$17 million in claims may also be
23 asserted against the individual defendants and may thus be subject to insurance
24 coverage. The Alecto Defendants dispute the additional \$17 million in claims but
25 have provided notice of the additional \$17 million in claims to their insurance
26 carriers and those insurance carriers are reviewing the notice of additional claims
27 and the potential for coverage under applicable insurance policies.

Developments Since the Parties' May 5, 2025, Status Report

6. Plaintiff has diligently examined ways to remove the obstacles to proceeding with this case. Plaintiff asserts that the automatic bankruptcy stays must be lifted to allow any amendments to the claims in this case. Defendants disagree with Plaintiff's assertion. Plaintiff has conferred with the Bankrupt Defendants regarding a possible resolution of Plaintiff's claims against the Bankrupt Defendants through their respective bankruptcy cases, as well as obtaining relief from the automatic bankruptcy stay in each case to permit amendment of the Complaint in this case. Plaintiff has discussed lift stay stipulations for this purpose with the Bankrupt Defendants and is prepared to file motions requesting relief from the automatic bankruptcy stay if such stipulations cannot be obtained in the near future. The Bankrupt Defendants reserve the right to object to any motion to lift the stay in the bankruptcy cases. If Plaintiff's approach proves feasible, and the bankruptcy stays are lifted, Plaintiff presently intends to then request a lift of the stay in this case and leave from this Court to file an amended complaint that would, in effect, dismiss all the Bankrupt Defendants and all non-bankrupt corporate affiliates from this action, leaving only the three individual Defendants. If such an amended complaint is accepted by the Court, the remaining parties will confer and propose a discovery schedule and/or otherwise confer about possible settlement.

7. The Bankrupt Defendants have discussed resolution of the Plaintiff's claims in the bankruptcy case and do not believe lift stay stipulations or motions are necessary because, consistent with the stipulations and orders already entered in the Bankruptcy Cases, the Bankrupt Defendants believe Plaintiff can amend its claims against the non-bankrupt defendants without asserting claims against the Bankrupt Defendants and, if Plaintiff desires, can simply dismiss the Bankrupt Defendants by way of stipulation. The Bankrupt Defendants reserve the right to object to any motion to lift the stay in the bankruptcy cases. Plaintiff's

1 contemplated amendment would significantly narrow the claims to be adjudicated
2 here, while adding the \$17 million claim for new debts described above against the
3 remaining individual Defendants.

4 8. Notwithstanding the contemplated approach described above, Plaintiff
5 reserves the right to move to lift the Court's stay of this case and resume litigation
6 if Plaintiff, in its sole discretion, determines that resolution of the bankruptcies or
7 the insurance coverage dispute is no longer in the best interest of the United States.
8 Defendants reserve the right to object to any request to lift the stay in this case as
9 well as to any proposed amendment to the Complaint in this case.

10 9. This joint status report is made in good faith and not for the purpose of delay
11 or for any other improper purpose.

12 Dated: September 12, 2025

UNITED STATES OF AMERICA

13 By: /s/ Michael J. Quinn

14 Michael J. Quinn
15 Senior Litigation Counsel
16 United States Department of Justice
Attorneys for Plaintiff United States
of America

17 Dated: September 12, 2025

MICHAEL BEST & FRIEDRICH LLP

18 By: /s/ Evan S. Strassberg
19 (CA Bar No. 219336)

20 Attorneys for Defendants Olympja
21 Health Care LLC, Alecto Healthcare
22 Services, LLC, Sherman/Grayson
23 Hospital, LLC, Alecto Healthcare
Services Sherman, LLC, Laxman
Reddy, Matthew Williams, and
Jeremy Redin

24 **ATTESTATION**

25 In accord with Local Civil Rule 5-4.3.4(a)(2)(i), I attest that all other
26 signatories listed, and on whose behalf this filing is submitted, concur in the
27 filing's content and have authorized the filing.
28

1 Dated: September 12, 2025

UNITED STATES OF AMERICA

2 By: /s/ Michael J. Quinn

3 Michael J. Quinn

4 Senior Litigation Counsel

5 United States Department of Justice

6 Attorneys for Plaintiff United States
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